FITCH: AIRCRAFT LESSORS HAVE SUPPORTIVE MARKETS BUT RISKS REMAIN

News / Finance

Recent equity capital raising plans and strategic announcements by **aircraft lessors** indicate **supportive market conditions** for the sector and suggest the potential for increased activity in 2016, says **Fitch Ratings**. The market for commercial aircraft is currently benefiting from the strong growth of global air traffic, low airline fuel prices, largely improving airline credit fundamentals and stable aircraft values.

However, over the long term, aggressive growth and high competition among aircraft lessors, combined with the cyclical nature of the aviation industry, could expose creditors to performance volatility.

Firms announcing transactions or potential capital raises since September 2015 include Aviation Capital Group (ACG), BOC Aviation (a subsidiary of Bank of China), CIT Group and Avolon Holdings (Avolon).

The earliest of the recent string of actions was announced on Sept. 3, when Avolon agreed to be acquired by Bohai Leasing at a price of $31 per common share. This represented a 31% premium to its pre-announcement share price.

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On Oct. 21, CIT announced a plan to explore strategic alternatives for its $10 billion commercial aerospace business. CIT's announcement is primarily motivated by its desire to streamline its core banking business and optimize its capital position, but supportive aircraft lessor valuations likely played a role in the timing of the decision.

Earlier this month, Bank of China announced that its shareholders approved a future partial public listing of BOC Aviation. Motivations for the transaction include diversifying BOC Aviation's capital base and providing liquidity to a portion of BOC's investment.

Most recently, ACG announced that its parent, Pacific Life Insurance Company, is considering a partial public listing of ACG intended to give ACG access to additional capital to execute its growth strategy while managing Pacific LifeCorp's investment position relative to its overall balance sheet. Ratings assigned to BOC Aviation and ACG both benefit from a degree of uplift based on the likelihood of their parent companies extending support. Partial offerings incrementally dilute this alignment of interest, but continued majority ownership and strategic alignment serve as rating mitigants.

Fitch believes other aircraft lessors could pursue similar actions in the future, should markets remain supportive. For example, lessors which are private equity-owned could seek public offerings, while small to midsize lessors could explore sales to other lessors or strategic players if valuations are attractive. For lessors seeking to raise capital for growth, Fitch's assessment would be tempered by the competitive market dynamics, the cyclical nature of the business and the risk of exogenous shocks such as oil price volatility, geopolitical risks and terrorism.

The above article originally appeared as a post on the Fitch Wire credit market commentary page. The original article can be accessed at www.fitchratings.com. All opinions expressed are those of Fitch Ratings.

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